International Economic & Energy Weekly

15 January 1981

Perspective

Iran, the Hostages, and the War 25X1

The economic outlook for Iran is poor and could become much worse, depending on the course of the war with Iraq and on whether the hostages are released. As things now stand, the economy is in a highly vulnerable position:

- Its oil production and refining facilities and export terminals are exposed to air attack. 25X1
- Available foreign exchange reserves have fallen to the point that they would cover current account deficits at recent rates for less than three months.

The effects of the war with Iraq are creating severe economic constraints:

- Logistic problems are the key import bottleneck because Iran has been denied safe use of its northern Gulf ports, forcing it to bring in most seaborne imports through a single major port, Bandar-e Abbas.
- Iran's single major oil export port, Kharg Island, although little damaged, is open to air attacks.
- More than half of Iran's refinery capacity is not operating, and the remainder is highly vulnerable.

A lessening of Iraqi air attacks has enabled Iranian oil exports to recover from a low of about 200,000 b/d at the beginning of the war to about 1 million b/d in the past few weeks. The situation, however, could change quickly. 25X1

Release of the hostages and an end to sanctions would greatly improve Iran's foreign exchange position. If its unencumbered assets are released, Iran could continue recent import levels for an additional six months, even in the absence of oil exports. Iran would be unable to appreciably increase imports, however, unless an easing of the war permitted additional Persian Gulf ports to be opened, thereby widening the logistic bottleneck. A lifting of Western trade sanctions on Iran would have little effect unless this occurred. 25X1

At the present level of hostilities, economic conditions are unlikely to become a controlling factor in Iran's politics, at least during the next few months. Inflation, unemployment, and shortages, however, will continue to aggravate popular discontent. 25X1

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Approved For Release 2005/11/23 : CIA-RDP81B00401R000400100001-9

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National Foreign Assessment Center

Secret [redacted]

Iran: Economic Conditions Since the War (U)

An Intelligence Assessment

Research for this report was completed on 24 December 1980.

This assessment was prepared by analysts in the Office of Economic Research. It was coordinated with the Office of Political Analysis and the National Intelligence Officer for Near East–South Asia. Questions may be directed to the Chief, Near East Branch, Near East–South Asia Division, OER, [redacted]

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January 1981

Approved For Release 2005/11/23 : CIA-RDP81B00401R000400100001-9

Iran: Economic Conditions Since the War [redacted]

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Key Judgments

The Iranian economy, already severely depressed as a result of the revolution, has been further disrupted by the war. Shortages and unemployment are widespread, and there has been some overt manifestations of popular discontent. Basic needs are being met, however, and if conditions do not get much worse, economic pressures are unlikely during the next few months to become a dominant consideration for the regime in its policy regarding the war or the hostages.

This outlook could change quickly, however, because of the economy's extreme vulnerability to military action against a few key facilities:

- The most important oil export facility of Kharg Island: if Iran does not continue to export oil, it will run out of foreign exchange reserves within four to five months even if it drastically curtails imports.
- The two remaining major operating refineries at Tehran and Esfahan: if these refineries were put out of commission, or the flow of oil through the single pipeline which services them were stopped, Iran would have great difficulty getting enough petroleum products to continue the war and distribute even basic foods to the population. [redacted] 25X1

Western economic sanctions have had a limited impact on the domestic economy. Iran has managed to find other sources for denied goods, although at higher cost. As a result of disorganization and labor unrest, its import needs before the war were only about one-half the prerevolutionary level. War-related disruptions have further reduced Iran's import capabilities, limiting the flow of imports through the Persian Gulf to a single major port (Bandar-e Abbas), which before the war handled about 10 percent of Iran's import trade. The contraction of trade with the West has somewhat increased Iran's dependence on trade with the Communist countries, but transport bottlenecks prevent a major shift in that direction. [redacted] 25X1 25X1 25X1

Sanctions have greatly cut Iran's international liquidity; Iran's liquid deposits in non-US banks have fallen [redacted] 25X1

25X1 [redacted]

Consequently, the liquidity problem could become quite severe if Iran were unable to export much oil. Even with oil exports of some 750,000 barrels per day (b/d), foreign currency supplies would constrain imports and further hinder economic activity within six to eight months. [redacted] 25X1

A severe worsening of economic conditions could generate serious political unrest in Iran, but the impact on the war and the hostage situation is unpredictable. [redacted]

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